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SUBJECT: TURKEY-IRAQ TRADE SUFFERING FROM INSTABILITY AND A CONGESTED BORDER CROSSING

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¶11. (SBU) Summary: Turkey's trade with Iraq has suffered in recent months due to increased instability in Iraq, continuing problems at Habur Gate and inadequate banking services. The situation at Habur dismays many businessmen since, even though the facilities there have been upgraded, it still takes 21 days for trucks to cross the border. While Turkey remains the dominant source of foreign trade and investment force in Iraq, these trends could mean the post-war growth is leveling off or even decreasing for some companies. This is bad news for the economy of SE Turkey which benefited proportionately more than the rest of the country. The Turkish-Iraqi Businessmen Association (TIRIAD) has recommended measures to protect and expand Turkey's role in the Iraq market, including making Habur more efficient, cleaning up and improving the financial infrastructure and having the GOT open a consulate in Irbil. End summary.

Iraq Turmoil Endangering Turkey-Iraq Business

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¶12. (SBU) The deteriorating security situation in Iraq, including rumors of a Turkish military incursion into northern Iraq, have a significant impact on the ability of Turkish firms to do business with Iraq. This is especially damaging for businesses in the economically depressed southeast, where many companies are dependent on trade across the Iraq border. Adana's Chamber of Commerce recently announced to the press that turmoil in Iraq is seriously endangering the region's exports there. Adana's exports to the Middle East totaled approximately \$300 million in ¶2005. The General Manager of Adana Cement Industry complained that his company's exports to Iraq had decreased by 40 percent in 2006. The General Manager of EMS plastic pipe company told the press that his company hadn't exported anything to Iraq over the past few months since tensions in northern Iraq had increased. Cukurova Steel Silos Company reported that their company rejects 50 percent of projects in Iraq because of the lack of stability and the difficulty in guaranteeing payments from Iraqi businesses. Furthermore, transit of fuel products to Iraq's SOMO petroleum monopoly is down because of problems with contracts, letters of credit, and smuggling investigations. Even though this is a special transit arrangement, local companies have benefited from some of the contracts.

¶13. (SBU) Since the Iraq war began in 2003 shippers have complained about the long delays at Habur Gate, the only border

crossing between the two countries suitable for cargo. Currently, a truck carrying non-perishable goods from Turkey to Iraq can expect to wait up to three weeks on the Turkish side of the border awaiting customs inspections and other formalities. (U.S. military logisticians now factor these delays into their plans and, although they pay more for the truckers' time, have not experienced any supply disruptions for the past year.) The construction of an expanded, fully computerized gate with 10 truck lanes on the Turkish side raised hope that Habur would no longer be a bottleneck. But shippers complain that the old inefficiencies remain, despite the new infrastructure. On a given day, at most only 5 or 6 truck lanes are open, and Turkish customs officials are slow at inspecting and processing the trucks, a situation that keeps large numbers of trucks waiting on the Turkish side sometimes for as long as a week or more before being allowed to proceed across the border.

¶4. (SBU) In the border town of Cizre, Chamber of Commerce President Adnan Elci, who was eagerly touting the benefits of the new infrastructure in August, is now disillusioned that the GOT has not fully staffed Habur, suggesting that the government wants to restrict trade with Northern Iraq. Elci said that Turkey's total exports to Iraq, including petroleum products and construction materials, was around \$2.75 billion in 2005, representing 29 percent of total Turkish exports to the Middle East, all being shipped via Habur gate. Elci said there were hundreds of transportation companies with the required transport licenses; twenty-thousand dump trucks, five-thousand trucks, twenty-thousand tanker trucks doing business through Habur border gate, but the number of truck shipments via Habur fell from 563,000 in 2005, to 251,576 in 2006, representing a 48 percent decrease. In meetings with Iraqi businessmen, Elci found that Iraqi businesses were in search of alternative supply routes, possibly through neighboring countries other than Turkey. Elci also noted that the slow-down in trade with Iraq is bad for Turkey as a whole, it causes disproportionate suffering for local business, which is heavily dependent on the transport sector.

TIRIAD Forward Leaning on Turkey-Iraq Business

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¶5. (SBU) One organization trying to hold Turkey's foothold in the Iraq market is the Turkish-Iraqi Businessmen's Association (TIRIAD). In a recent visit to TIRIAD office in Mersin, former Managing Director Ihsan Unat told us that TIRIAD was established as a result of discussions among like-minded Turkish and Iraqi businessmen who met at the 1st Iraq-Turkey Commercial Fair held in Gaziantep last year. While acknowledging the impact that the deteriorating security situation had on business between Turkey and Iraq, Unat pointed out that a lack of trust resulting from the poor business practices of some Turkish companies in Iraq since the war have undermined the credibility of Turkish businesses among Iraqi customers and partners. For Unat, this lack of trust was primarily responsible for the slow growth of commerce between the two countries. The lack of Turkish banks or credit institutions willing to finance business in Iraq is another problem impeding commerce between the two countries.

¶6. (SBU) Unat explained that TIRIAD was created to prevent these problems from leading to lost opportunities for Turkish businesses that are naturally well-positioned to lead in the Iraqi market. Unat further explained that TIRIAD functions as a bridge between Turkish companies and Iraqi clients and customers. Because of the trust issue, Unat said, TIRIAD is selective in accepting new members, and currently has only 35 members in Mersin, Adana, Gaziantep, Diyarbakir and Istanbul. He noted that unlike the Mersin-based Turkish-Arab Businessmen Association (TURAB), which aims to promote trade with 29 Arab and Turkic countries, TIRIAD focuses its attention on Iraq only. With 67 percent of Iraq's imports passing through Mersin Port and Free Zone (based on 2005 data), the city is uniquely positioned as a center for commercial exchange between Turkey and Iraq.

¶ 7. (SBU) Of the 530 foreign companies registered at Irbil Chamber of Commerce, 380 were Turkish up until August 2006, according to Unat. The figure has dropped to around 270 today. Unat regretted that, due to the negative reputation Turkish firms had gained, their share in the Iraq market [Note: Primarily in northern Iraq. End note.] had declined from 80-90 percent down to 30 percent. Unat told us that the Irbil Chamber of Commerce currently has about 30 Turkish companies on a black list of companies that are forbidden from contracting business relationships with Iraqi companies. Many Turkish firms have been replaced in the market by firms from Germany, Jordan, South Korea, and Iran. Unat explained that TIRIAD aims to turn this trend around and raise the number of Turkish firms in Iraq to over 500 in 2007, making Turkey the market leader there.

#### TIRIAD Proposes Solutions

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¶ 8. (SBU) The most promising sectors for Turkish-Iraqi business continue to be construction, processed food and agricultural products. TIRIAD hopes to set up a year-round commercial fair center in Irbil to promote Turkish companies, and plans to organize a summit in Mersin to bring Iraqi and Turkish businessmen together. In the more distant future, TIRIAD plans to open trade centers in the buffer zone along the Turkey-Iraq border, similar to those that Iran has already opened.

¶ 9. (SBU) Until the GOT's recent establishment of a consulate in Mosul, Turkey's only consulate presence in Iraq was in Baghdad. While most of the foreign countries doing business in northern Iraq have established banks, business offices and consulates in Irbil, TIRIAD has proposed to the GOT to also open a consular/commercial office in Irbil to assist Turkish businesses with passport, visa and commercial documentation; although the new Mosul office should help in this regard. TIRIAD is further encouraging Turkish banks to open offices in northern Iraq to accommodate Turkish companies' financial transactions; and the Association is pushing the GOT to expand construction at Habur border gate to increase capacity from its current 2000 vehicles per day to 5000 to 6000 vehicles per day.

#### Comment

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¶ 10. (SBU) Despite political friction between the GOT and Northern Iraq, strong trade relations have been a stabilizing factor in the relationship - and a boon to companies across Turkey. Although the cross-border trade has soared above pre-war levels (truck crossings increased seven-fold from 2002 to 2004), it appears to be leveling off or even decreasing for

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sectors that are sensitive to the instability within Iraq. Some companies in the southeast are looking for markets in Syria, Jordan and Iran as a means to recover from losses experienced from the decline in trade across the border with Iraq. A GOT-KRG rapprochement could change the mood, but currently Turkish businesses in the southeast are increasingly skittish about committing more resources to Iraq.

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